

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

_____)	
In the Matter of)	
)	Order No.: NE-08-07
DOMESTIC BANK)	
Cranston, Rhode Island)	Effective Date: June 30, 2008
(OTS No. 13964))	
)	
and its Subsidiaries, including)	
)	
INTERVALE MORTGAGE CORPORATION)	
Cranston, Rhode Island)	
)	
_____)	

ORDER TO CEASE AND DESIST

WHEREAS, Domestic Bank, Cranston, Rhode Island, OTS Docket No. 13964 (“Savings Association”) and Intervale Mortgage Corporation (“Intervale” and together with the Savings Association, the “Regulated Entities”), by and through their respective Boards of Directors, have executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist and an Order of Assessment of a Civil Money Penalty (“Stipulation”); and

WHEREAS, the Savings Association and Intervale, by executing the Stipulation, have consented and agreed to the issuance of this Order to Cease and Desist (“Order”) by the Office of Thrift Supervision (“OTS”) pursuant to 12 U.S.C. § 1818(b); and

WHEREAS, pursuant to delegated authority, the OTS Regional Director for the Northeast Region (“Regional Director”), is authorized to issue consent Orders to Cease and Desist where an OTS-regulated institution has consented to the issuance of an order.

NOW, THEREFORE, IT IS ORDERED that:

1. Compliance with Laws, Regulations and Safe and Sound Practices.

The Savings Association and its Subsidiaries (including Intervale) and their respective directors, officers, employees, and agents shall cease and desist from any action (alone or with another or others) for or toward causing, bringing about, participating in, counseling or the aiding and abetting of the following unsafe or unsound practices and violations:

- (a) 12 U.S.C. § 4903(a)(1)(A) and (B) (Homeowners Protection Act – Requiring Private Mortgage Insurance disclosures),
- (b) 12 U.S.C. § 2607 (Real Estate Settlement Procedures Act – Prohibition against kickbacks and unearned fees),
- (c) 15 U.S.C. § 45(a)(1) (Federal Trade Commission Act –Unfair or Deceptive Practices are Unlawful),
- (d) 15 U.S.C. § 1681g(g) (Fair Credit Reporting Act – Disclosure of credit scores),
- (e) 12 C.F.R. §§ 226.4 & 22 (Truth in lending/Regulation Z -- Requiring disclosure of finance charges and accurate computation of annual percentage rates),
- (f) 12 C.F.R. § 226.19(b) (Truth in lending/Regulation Z – Requiring Disclosures on Variable Rate Transactions/Adjustable Rate Mortgages),
- (g) 12 C.F.R. § 226.24(a) (Truth in lending/Regulation Z – Permitting advertising only of actually available terms),
- (h) 12 C.F.R. § 226.24(c) (Truth in lending/Regulation Z – Advertising of terms that require additional disclosures),
- (i) 12 C.F.R. § 560.100 & 101 (Requiring savings associations and their subsidiaries to adopt and comply with prudent written real estate lending standards),
- (j) 12 C.F.R. § 563.161(a) (Requiring management and financial policies that are safe and consistent with economical home financing and the purposes of savings associations),
- (k) 12 C.F.R. § 560.170 (Requiring savings associations and their subsidiaries to establish and maintain certain records relating to lending transactions),
- (l) 12 C.F.R. § 563.27 (Requiring that advertising of services and contracts must be accurate),
- (m) 12 C.F.R. § 563.170(c) (Requiring, *inter alia*, the establishment and maintenance of accurate books and records),
- (n) 12 C.F.R. § 563.180(b) (Prohibiting false, misleading statements and omissions of material facts),
- (o) 12 C.F.R. § 563.180(d) and 31 C.F.R. § 103.18 (Suspicious Activity Reports),
- (p) 12 C.F.R. Part 564 (Appraisals),
- (q) 12 C.F.R. § 572.3(a) (Requirement to purchase flood insurance where available),
- (r) 12 C.F.R. § 572.5 (Escrow requirements for flood insurance), and
- (s) Safety and Soundness Standards set forth in the Interagency Guidelines Establishing Standards for Safety and Soundness, Appendix A to 12 C.F.R. Part 570 with respect to:
 - (i) Operational and managerial standards (Section II.A), (ii) Internal Audit System (Section II.B), (iii) Loan documentation (Section II.C), and (iv) Credit underwriting (Section II.D).

2. **Enhanced Oversight by Board of Directors, Improvements to Management and Internal Audit Process.**

(a) **Board Independence from Management.**

(i) By no later than Friday, October 17, 2008, the Savings Association shall, subject to the requirements of 12 C.F.R. 563 Subpart H and Section 21(a) of this Order, add to its Board of Directors ("Board") a sufficient number of new directors, but no fewer than three (3), so that a majority of the directors are Independent of Management. The Outside Directors serving as of the Effective Date ("Current Outside Directors") shall be responsible for identifying and nominating candidates that have substantial banking, bank regulatory, financial management, and/or accounting background and experience.

(ii) By no later than Thursday, July 31, 2008, the Savings Association shall amend its bylaws and make an appropriate regulatory filing (12 C.F.R. § 552) to effect an increase in the number of authorized directors required by Section 2(a)(i).

(iii) By no later than Friday, November 14, 2008, the Savings Association shall convene a meeting of its Board of Directors to elect a Chairman that is Independent of Management (as defined below).

(b) **Management Evaluation/Management Plan.**

(i) By no later than Friday, August 15, 2008, the Current Outside Directors shall prepare and submit to the Board a written report evaluating the performance of the Savings Association's Senior Executive Officers ("Executive Evaluation Report") that includes:

- (A) An evaluation of each Senior Executive Officer's knowledge, skills, abilities and a determination of whether each of these individuals possesses the experience and other qualifications required to perform present and anticipated duties of the position;
- (B) An assessment of each Senior Executive Officers': (I) involvement in and responsibility for the practices criticized in the most recent Report of Examination ("ROE") and (II) ability and commitment to effectively address the deficiencies disclosed in the ROE and to operate the Savings Association in a safe and sound manner in compliance with all applicable laws and regulations; and
- (C) Recommended changes to the Senior Executive Officer composition.

(ii) Based on the Executive Evaluation Report and by no later than Monday, September 15, 2008, the Board shall submit to the Regional Director, for review, comment and non-objection, an acceptable written Management Plan. To be acceptable, the Management Plan, at a minimum, shall:

- (A) Require that the Savings Association, by no later than Friday, November 28, 2008, have and retain a Chief Executive Officer who has demonstrated the ability to effectively manage a savings association in a safe and sound manner and in compliance with applicable laws and regulations, and
- (B) Include the steps that the Board shall take to effect any other necessary or desirable changes to the Savings Association's Senior Executive Officer composition and a schedule for the accomplishment of each such step.

(iii) To assist in the preparation of the Executive Evaluation Report, the Outside Directors may utilize the services of a third party consultant acceptable to the Regional Director.

(iv) Immediately following receipt from the Regional Director of written notice of non-objection to the Management Plan (with such revisions as may be required by the Regional Director), the Savings Association and its Board shall implement and adhere to the Management Plan. Such Management Plan shall be incorporated into this Order, and any deviation from such Management Plan shall be a violation of this Order.

(c) Audit Committee Composition and Access to Resources.

(i) By no later than Friday, November 14, 2008, the Board shall reconstitute its Audit Committee in a manner acceptable to the Regional Director, so that it is comprised only of directors that are Independent of Management and includes at least two Outside Directors added to the Board pursuant to Section 2(a).

(ii) The Audit Committee shall have:

- (A) The authority to engage independent counsel and other advisers at its discretion, without prior permission of the Board or management, to advise the Audit Committee as it determines necessary to carry out its duties, and
- (B) Access to appropriate funding by the Savings Association, as determined by the Audit Committee, for payment of: (I) compensation to any public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or other services for the Savings Association, (II) compensation to any advisers employed by the Audit Committee, including legal advisers, and (III) ordinary administrative expenses of the Audit

Committee that are necessary or appropriate in carrying out its duties and responsibilities.

(d) Audit Committee Charter/Duties; Meetings; and Reporting to Board of Directors.

(i) By no later than Friday, August 15, 2008, the Board shall establish, and the Audit Committee shall operate pursuant to, an Audit Committee Charter acceptable to the Regional Director. Except as otherwise provided or required by this Order, the Audit Committee Charter shall be in the form set forth in the Model Audit Committee Charter published by the Institute of Internal Auditors and specifically provide for the following duties and responsibilities required by this Order:

- (A) Oversight over the Savings Association's Internal Audit Function as required by Section 2(e) of this Order,
- (B) Oversight and follow-up on deficiencies disclosed in the Compliance Audits required by Section 3(e) of this Order,
- (C) Review of proposed new activities, products or services as required by Section 12 of this Order,
- (D) Review of all proposed transactions between the Savings Association and its affiliates, prior to submission to OTS as required by Section 18 of this Order, and
- (E) Such other appropriate duties as determined by the Board, after reviewing the guidance set forth at 12 C.F.R. Part 363, Appendix A, ¶ 31.

(ii) The Audit Committee shall meet at least monthly, with minutes of such meeting recording the Committee's activities and reflecting the agenda and materials presented to the Committee. Such meetings shall be held prior to scheduled meetings of the full Board in order to facilitate a prompt and complete reporting to the Board about committee activities, issues, and related recommendations.

(e) Internal Audit Requirements.

(i) By no later than Friday, August 15, 2008, and on each annual anniversary date thereafter, the Chief Executive Officer shall prepare and submit to the Audit Committee a comprehensive written risk assessment of the Savings Association and its Subsidiaries that identifies and describes its highest operating risk areas in rank order ("Risk Assessment").

(ii) Based on the Risk Assessment and the standards for Internal Audit Systems set forth in Section II.B of Interagency Guidelines Establishing Standards for Safety and Soundness, Appendix A to 12 C.F.R. Part 570, the Audit Committee shall establish in writing, and oversee the completion of, Internal Audit reviews of the Savings Association's operations (including activities

conducted through Subsidiaries and agents) for the following year by no later than Friday, August 29, 2008, and on each annual anniversary date thereafter. The scope of such Internal Audit reviews shall include, without limitation:

(A) Whether the Savings Association is in compliance with:

- I. Applicable statutes and regulations, including laws and regulations affecting transactions with affiliates, insider loans and conflicts of interest, and
- II. Corrective actions required or restrictions imposed by this Order, or that arise out of regulatory examinations,

(B) Whether the Savings Association is operating in accordance with the Business Plan required by Section 12 of this Order,

(C) Whether all deficiencies or weaknesses identified in internal and/or external audits have been or are being corrected by management, and

(D) The adequacy and effectiveness of information systems and of accounting, operating, and administrative controls.

(iii) By no later than Friday, October 31, 2008 (with respect to third quarter of 2008), and on a quarterly basis thereafter, no later than 30 days following the end of each calendar quarter, a written report shall be prepared by the Internal Auditors for the Audit Committee that must, at a minimum, discuss:

(A) The scope of the review conducted during the preceding quarter, which shall in every case include a review of new activities, lending or services commenced in the preceding quarter to determine whether the Savings Association has complied with the restrictions and procedures set forth in Section 12 of this Order,

(B) Any material deficiencies noted during the review, including violations of this Order or the Business Plan, and

(C) The response of management to the material deficiencies or violations.

(iv) Management shall address and correct deficiencies cited in the Internal Audit Review and the Audit Committee shall track management's progress in effecting corrective action.

(v) Management shall prepare and submit to the Audit Committee monthly tracking reports that include, at a minimum:

(A) A description of each deficiency and a schedule identifying all steps necessary to correct it, together with projected deadlines for the accomplishment of each step and the date on which the corrective action will be completed,

- (B) The member of management tasked with responsibility for ensuring that the corrective action is taken,
- (C) A detailed listing of actions taken to date to correct the deficiency, and
- (D) An explanation for any corrective actions that are not proceeding according to schedule.

3. **Compliance Program Management and Oversight.**

(a) Full Time Compliance Officer and Full-Time Compliance Support Staff Member.

(i) By no later than Friday, August 15, 2008, the Savings Association shall hire a qualified full-time Compliance Officer, acceptable to the Regional Director, whose sole responsibility shall be to oversee compliance with the Compliance and Consumer Protection Laws and Regulations by the Savings Association and its Subsidiaries (the "Compliance Officer"). To be acceptable, the candidate must be knowledgeable about the Compliance and Consumer Protection Laws and Regulations and have substantial experience performing the same or similar function in a banking institution or comparable experience at a bank consulting firm or at a bank regulatory agency. The Compliance Officer shall: (A) report to the Chief Executive Officer and (B) be given written authority by the Board to implement and supervise the Savings Association's Compliance Program adopted pursuant to Section 3(c) below.

(ii) By no later than Monday, September 15, 2008, the Savings Association shall hire or designate a qualified compliance staff employee: (A) that is acceptable to the Regional Director, (B) whose services shall be devoted to facilitating the Savings Association's compliance with the Compliance and Consumer Protection Laws and Regulations, and (C) who will report to the Compliance Officer. To be acceptable, the candidate must be knowledgeable about the Compliance and Consumer Protection Laws and Regulations and have experience in their application to banking institutions.

(b) Retention of Compliance Consultant. By no later than Friday, August 29, 2008, and subject to the requirements of Section 22 of this Order, the Savings Association shall engage a qualified service provider acceptable to the Regional Director ("Compliance Consultant") to:

- (i) Assist in the reformulation of the Savings Association's Compliance Program required by Section 3(c) of this Order, and
- (ii) Perform quarterly full-scope compliance audits ("Compliance Audits") required by Section 3(e) of this Order, including a review of the Savings Association's and its

Subsidiaries' compliance with the requirements imposed by Section 6 of this Order related to Suspicious Activity Reports ("SARs").

(c) Reformulation and Adoption of Compliance Program. With the assistance of and input from the Compliance Consultant, by no later than Friday, October 31, 2008, the Board shall review and adopt, and the Savings Association shall implement and adhere to, a written program designed to ensure the Savings Association is operating in compliance with the Compliance and Consumer Protection Laws and Regulations ("Compliance Program"). The Compliance Program shall incorporate the SMAART components (*i.e.*, Systems, Monitoring, Accountability, Response, and Training) that are set forth in Section 1100 of OTS's Examination Handbook and Appendix A thereto, and include:

- (i) An organization chart detailing the identity of compliance staff, their job titles and reporting relationships,
- (ii) Written descriptions of the duties and responsibilities and job descriptions of the Compliance Officer and other positions in the Compliance area, that clearly define duties, authority and accountability,
- (iii) Designation of a full-time employee devoted exclusively to the Savings Association's compliance with the Bank Secrecy Act ("BSA") (the "BSA Officer"),
- (iv) A policies and procedures manual for use by all Savings Association personnel in the performance of their duties and responsibilities, and which identifies employee accountability for required procedures, for compliance with the Compliance and Consumer Protection Laws and Regulations and Interagency Guidance related to consumer protection,
- (v) A requirement to update the written policies and procedures at least semi-annually, or as required by more frequent changes in laws or regulations, or changes in the Savings Association's business strategies, so that the program remains current and effective,
- (vi) A formal compliance risk review process prior to the introduction or implementation of new or modified marketing efforts, products, services or activities,
- (vii) Adequate internal controls to ensure compliance with consumer protection laws, rules, and regulations, including quality assurance reviews performed by an independent third party to evaluate compliance and report to the Audit Committee at least quarterly, and
- (viii) An education and training program for all appropriate Savings Association personnel in the requirements of the Compliance and Consumer Protection Laws and Regulations, with training tailored to each individual's responsibilities and duties. Training activities shall be documented and the training program must be

reviewed and updated at least annually to ensure that appropriate personnel are provided with the most relevant and pertinent information.

(d) Quarterly Compliance Audits by Compliance Consultant. The Savings Association shall engage the Compliance Consultant to, beginning with the quarter ending June 30, 2008 and for each successive quarter thereafter, perform and provide to the Audit Committee a written report related to a full-scope compliance audit of the Savings Association's and its Subsidiaries' activities during the preceding calendar quarter that includes:

- (i) Findings concerning the Savings Association's compliance with: (A) Compliance and Consumer Protection Laws and Regulations, inclusive of Fair Lending laws and regulations, and (B) Underwriting Standards required by Section 4 of this Order (collectively "the Findings") ,
- (ii) Written recommendations for: (A) correction of any violations identified in the Findings and (B) improvements to the Compliance Program (collectively "Compliance Audit Recommendations"), and
- (iii) A report on management's progress in implementing Compliance Audit Recommendations made in prior Compliance Audits.

Such reviews will be completed and delivered to the Audit Committee within (30) days following each calendar quarter end.

(e) Tracking of Compliance Audit Recommendations.

(i) Management shall implement each Compliance Audit Recommendation and the Audit Committee shall oversee and track management's performance and progress related thereto.

(ii) Each month, management shall prepare and submit to the Audit Committee tracking reports that, at a minimum, include:

- (A) A description of the Compliance Audit Recommendation,
- (B) A schedule identifying all steps necessary to implement each Compliance Audit Recommendation,
- (C) Projected deadlines for the accomplishment of each step and the date on which the Compliance Audit Recommendation will be fully implemented,
- (D) A member of management tasked with the responsibility for ensuring that the Compliance Audit Recommendation is accomplished,
- (E) A detailed listing of the actions taken to date to implement the Compliance Audit Recommendation, and
- (F) An explanation for any actions that are not proceeding according to schedule.

4. **Responsible, Safe and Sound and Nondiscriminatory Mortgage Underwriting Standard; Limitations.**

(a) Responsible, Safe and Sound and Nondiscriminatory Mortgage Underwriting Standards Required. By no later than Friday, August 29, 2008, the Board shall adopt and the Savings Association shall implement and adhere to responsible, nondiscriminatory, and safe and sound written mortgage underwriting standards in accordance with the requirements of 12 C.F.R. §§ 528.2a(b) and 560.101 and the guidance set forth in Appendix A to 12 C.F.R. § 560.101 and Appendix A to 12 C.F.R. Part 570. The mortgage underwriting standards required herein shall apply to all mortgage loans, regardless of whether they are originated for portfolio or resale, contain safeguards designed to ensure that the Savings Association does not engage in Predatory Lending practices, and provide that all disclosures required by law or set forth in Interagency Guidance are provided to borrowers as appropriate.

(b) Restrictions on Home Mortgage Loans. Effective immediately, the Savings Association shall not make any Home Mortgage Loan unless the loan is prudently underwritten and:

- (i) Has a documented loan-to-value ratio ("LTV") (or combined loan-to-value ratio ("CLTV") no greater than eighty percent (80%) at origination, unless any loan amount in excess of eighty percent (80%) is insured by private mortgage insurance provided by an issuer approved by the Federal Home Loan Mortgage Corporation ("FHLMC") or the Federal National Mortgage Association ("FNMA"),
- (ii) Is one of the following types:
 - (A) A conforming loan underwritten in accordance with criteria established for residential loans eligible for purchase by FHLMC or FNMA ("Conforming Loan"), or a loan that would be a Conforming Loan but for the loan's principal amount, with evidence in the loan file indicating that the loan does, in fact, conform to FHLMC and/or FNMA standards (except principal amount limitations where applicable),
 - (B) Guaranteed by the Department of Veterans Affairs against default ("VA Mortgage"), or
 - (C) Insured by the Federal Housing Administration against default ("FHA Mortgage"),
- (iii) Is secured by real estate located in the Savings Association's designated and documented Community Reinvestment Act Assessment Area, as of May 23, 2008 ("CRA Assessment Area"),
- (iv) Is originated without any involvement by loan brokers, except for those loan broker relationships to which OTS has previously provided written non-objection, and

- (v) Does not contain any of the following features or characteristics:
 - (A) Any form of reduced documentation characteristics, including, but not limited to stated-income, stated-asset, no ratio, no income, no-asset, “low-doc” or “no-doc” types of credits,
 - (B) Any feature that permits borrowers to defer repayment of principal and/or interest, such as Payment Option Adjustable Rate Mortgages or Interest Only Mortgages, or
 - (C) Any piggyback, second-lien or home equity loan or line of credit originated close in time to, or in contemplation of, the origination of a more senior mortgage for the same property.

(c) Loans Exempted From Restrictions. The lending restrictions set forth in Section 4(b) (above) shall not restrict the origination of the following types of loans, provided that the loans are originated in conformance with all applicable laws and regulatory requirements, the requirements of this Order, and in a safe and sound manner:

- (i) Home equity and second mortgage loans originated in the CRA Assessment Area,
- (ii) Nonspeculative construction loans (as defined below) originated in the CRA Assessment Area,
- (iii) FHA Title I home improvement loans;
- (iv) Mortgage loans that the Savings Association is obligated to make pursuant to legally binding written loan commitments issued no later than Wednesday, June 25, 2008, provided that such loans and/or loan commitments were not prohibited by the OTS’ supervisory directive letter dated March 20, 2007; or
- (v) Other types of loans permitted in writing by the Regional Director.

(d) Pre-closing Review Function. By no later than Friday, August 29, 2008, the Savings Association shall establish and implement a pre-closing review function designed to ensure that mortgage loans are properly underwritten in accordance with all applicable laws and regulations and the requirements of this Order. Evidence of such review shall be demonstrated through completion of a standardized checklist signed by the individual performing the review and made part of the loan file.

(e) Loan File Documentation. By no later than Friday, August 29, 2008, the Savings Association and its Subsidiaries shall establish and implement a system for creating and maintaining loan file documentation that provides a clear and transparent audit trail of the application and

underwriting process from beginning to end, including written commitment letters, written counteroffers and rate lock forms.

5. Forensic Review of Mortgage Loan Files.

(a) Forensic Review of Mortgage Files by Service Provider. By no later than Thursday, July 31, 2008, and subject to the requirements of Section 22 of this Order, the Savings Association shall engage a qualified service provider, acceptable to the Regional Director, to perform a forensic file review ("Forensic Review") that comports with the requirements of this Section.

(b) Forensic Review Scope. At a minimum, the scope of the Forensic Review shall include mortgage loans originated by the Savings Association between January 1, 2006 and June 30, 2007, through the Savings Association's branch and marketing network and through third party originators and field loan officers.

(c) Forensic Review Purpose. The purpose of the Forensic Review shall be the identification of matters required to be reported in a Suspicious Activity Report ("SAR") in accordance with 12 C.F.R. § 563.180(d) including, but not limited to:

- (i) False statements, including those related to occupancy of the property securing the loan, employment, income or obligations,
- (ii) Sales contracts including excessive seller concessions where there is reason to suspect that the purpose was to inflate the appraised value of the real estate and justify a larger loan amount, or
- (iii) Suspicious or unexplained overstatements of value of the collateral property by appraisers.

(d) Reporting of Forensic Review Findings. The Forensic Review findings shall be reported simultaneously to the Audit Committee and OTS no later than Friday, October 31, 2008.

6. Reporting Suspicious Activity.

(a) Enhanced Suspicious Activity Report Procedures Required. By no later than Friday, August 29, 2008, the Board shall adopt and the Savings Association shall implement and adhere to revised written procedures designed to address and correct deficiencies identified in the ROE concerning its failure to properly and timely report mortgage lending-related suspicious activities as required by 12 C.F.R. § 563.180(d) and 31 C.F.R. § 103.18. At a minimum, such revised procedures must provide that:

- (i) Each officer, employee, and agent of the Savings Association, who was involved in the mortgage origination process or in the repurchase of loans previously sold, shall report suspicious transactions to the Compliance Officer in writing,
- (ii) Following notification required by Section 6(a)(i), the Savings Association shall:
 - (A) Where appropriate, file a properly completed SAR on a timely basis,
 - (B) Where there is a decision not to file a SAR, produce and maintain written records describing: (I) the reason(s) why a determination was made not to file a SAR, (II) who conducted the review, and (III) what information was reviewed.
 - (C) All documentation and records required by this Section 6(a)(ii) and 12 C.F.R. § 563.180(d)(9) are retained by the Savings Association for no less than five (5) years, regardless of whether a SAR is filed.

(b) Money Service Business Account Monitoring. With respect to each money service business ("MSB") with an account at the Savings Association, the BSA Officer shall:

- (i) No less than quarterly, perform a review of transactions and activity in accordance with the guidance set forth in "Interagency Interpretive Guidance on Providing Banking Services to Money Services Businesses Operating in the United States" (Interagency Guidance) dated April 26, 2005 and the Bank Secrecy Act/Anti-Money Laundering Examination Manual ("BSA Examination Manual"),
- (ii) Prepare written reports summarizing the findings and provide such reports to the Audit Committee, and
- (iii) File SARs as appropriate, including in those instances where the Savings Association becomes aware that an MSB is operating in violation of the FinCEN registration or a state licensing requirement.

(c) Review of Mortgage Loans Originated by Intervale. By no later than Thursday, July 31, 2008, Intervale shall submit to the Regional Director, for his review, comment and non-objection, an acceptable written plan to conduct a look-back review of mortgage loans originated by Intervale, from January 1, 2005 through December 31, 2006, to determine whether there is evidence of suspicious activity that is required to be reported in SARs pursuant to 12 C.F.R. § 563.180(d) ("Look-Back Review Plan"). To be acceptable, the Look-Back Review Plan must, *inter alia*, provide for completion of the look-back review within ninety (90) days of the date on which the Regional Director provides written notice of non-objection to the Look-Back Review Plan. Within fifteen (15) days of Intervale's receipt of the Regional Director's written non-objection to the Look-

Back Review Plan, Intervale shall implement, the Look-Back Review Plan. Such Look-Back Review Plan shall be incorporated into this Order, and any deviation from such Look-Back Review Plan shall be a violation of this Order.

(d) Filing SARs Related to Suspicious Transactions Identified by Examiners and/or Forensic Audit.

- (i) By no later than Friday, July 11, 2008, the Savings Association shall either:
 - (A) File a SAR on all suspicious transactions identified by OTS during its 2007 examination, or
 - (B) Provide a written statement to the Regional Director explaining why the Savings Association has determined that no SAR is required.
- (ii) The Savings Association shall file SARs on all transactions identified in the Forensic Review required by Section 5 of the Order and the review of Intervale loan originations required by Section 6(c) of this Order no later than thirty (30) days following identification of a matter requiring submission of a SAR.

(e) SAR Training Program. By no later than Friday, August 29, 2008, the Board shall adopt and the Savings Association shall implement and adhere to an acceptable written comprehensive training program for the Savings Association and each Subsidiary to ensure that each director, officer and employee involved in lending and deposit functions, internal audit, quality control, or responsibilities related to Bank Secrecy Act or Bank Protection Act compliance is knowledgeable regarding the detection and reporting of suspicious activities ("SAR Training Program"). The Savings Association and each Subsidiary shall comply with the SAR Training Program and maintain records to demonstrate such compliance. The SAR Training Program shall:

- (i) Address the requirements of 12 C.F.R. § 563.180 and 31 C.F.R. § 103.18, and the procedures of the Savings Association or Subsidiary regarding reporting of suspicious activities,
- (ii) Require testing of each of the aforementioned officers, and employees, for proficiency in compliance with 12 C.F.R. § 563.180 and 31 C.F.R. § 103.18, and
- (iii) Set forth frequency of training and attendance requirements.

7. Remediation Plan for Benefit of Consumers.

(a) Within one business day following the Effective Date of this Order, the Savings Association shall establish a reserve of \$5 million (\$5,000,000.00, the "Remediation Amount") for use in its execution of the Remediation Plan required by this Section 7 of the Order.

(b) By Friday, July 31, 2008, the Savings Association, pursuant to authorization of its Board, shall submit to the Regional Director, for his review, comment, and non-objection, an

acceptable written plan for financial remediation that will provide for the timely distribution of the entire Remediation Amount ("Remediation Plan"). To be acceptable to the Regional Director the Remediation Plan, *inter alia*, shall provide for: (i) remediation to borrowers whose creditworthiness was not adequately considered by the Regulated Entities and to borrowers who have incurred large broker and/or lender fees, and (ii), if, after the provision of remediation to borrowers there remains any undisbursed portion of the Remediation Amount, then such portion shall be contributed to appropriate entities, which are not affiliated with the Savings Association, to support financial literacy and credit counseling.

(c) Within fifteen (15) days of the Savings Association's receipt of the Regional Director's written comments on the Remediation Plan submitted for his review, the Savings Association's Board shall revise the proposed Remediation Plan as required by the Regional Director's written comments.

(d) Within thirty (30) days of the Savings Association's receipt of the Regional Director's written notice of non-objection to the Remediation Plan (with such revisions as required by the Regional Director), the Savings Association shall implement the Remediation Plan. Such Remediation Plan shall be incorporated into this Order, and any deviation by the Savings Association from such Remediation Plan shall be a violation of this Order.

8. Prompt Response to Consumer Complaints Made to OTS/Reporting to Consumer Credit Agencies.

(a) Prompt Response to Consumer Complaints Made To OTS. The Savings Association shall respond to OTS and satisfactorily address issues raised in consumer complaints forwarded to it by OTS no later than ten (10) business days from receipt of such complaint from OTS.

(b) Reporting to Consumer Credit Agencies. The Savings Association must report to the three major consumer credit reporting agencies the payment performance of all of its retail credits on a monthly basis.

9. Required Payments to Borrowers Concerning Violations of RESPA and TILA.

(a) Reimbursement to Address Violations of Section 8 of the Real Estate Settlement Procedures Act ("RESPA"). By no later than Friday, November 14, 2008, the Savings Association shall pay to each borrower whose loan was originated as a part of its Field Loan Officer ("FLO") Program the amount of compensation that the Savings Association paid to the field loan officer in connection with such loan. However, the Savings Association shall have no obligation to provide any payment under this Section 9: (i) with respect to any "Business purpose loan", as defined in 24

C.F.R. § 3500.5(b) or (ii) where the Forensic Review discloses evidence that the borrower engaged or was complicit in making false statements on the loan application and/or other forms of illegal conduct material to the underwriting of the loan. By no later than Monday, December 1, 2008, the Savings Association shall provide documentary evidence satisfactory to OTS to confirm that payments have been made as required to affected borrowers.

(b) Reimbursement Required by Truth in Lending Act ("TILA"). By no later than Thursday, July 31, 2008, the Savings Association shall provide reimbursement to each of the 11 borrowers identified by OTS in the ROE and shall provide documentary evidence satisfactory to OTS to confirm that such payments have been made.

10. Required Capital Levels/Restriction on Capital Distributions.

(a) Required Capital Levels. At September 30, 2008, and at all times thereafter, the Savings Association shall have and maintain: (i) a Tier 1 (Core) Capital Ratio of at least nine percent (9%) and (ii) a total risk-based capital ratio of at least twelve percent (12%).

(b) Restriction on Capital Distributions. The Savings Association shall not make any capital distribution, as defined in 12 C.F.R. § 563.141.

11. Restriction on Asset Growth.

Unless otherwise previously permitted in writing by the Regional Director, the Savings Association shall limit its asset growth in any quarter to an amount not to exceed net interest credited on deposit liabilities during the quarter.

12. Restrictions on New Activities/Business Plan.

(a) Restrictions on Activities. Except with the prior written non-objection of the Regional Director, the Savings Association and its Subsidiaries shall not:

- (i) Engage in any activities, lending or services that the Savings Association or its Subsidiaries was not actively engaged in as of the Effective Date of this Order,
- (ii) Reinstatement any previously discontinued activity, lending program or service,
- (iii) Establish any new delivery channel, or modify any existing delivery channel, for lending or any other product or service, or
- (iv) Hire, contract or otherwise engage any employees or independent contractors to originate or market loans.

(b) Due Diligence Procedures for Proposed New or Reinstated Activities, Products or Services. By no later than Friday, August 15, 2008, the Board must approve and the Savings Association must implement and adhere to written policies and procedures setting forth a due

diligence process for any new or reinstated activities, products, or services offered by the Savings Association or its Subsidiaries. These policies and procedures must require the Savings Association to:

- (i) Explicitly address the risks associated with the proposed activity, product, or service, and establish appropriate controls to mitigate the associated risks,
- (ii) Obtain a written statement from the Compliance Officer that an effective compliance program has been established to oversee the new activity, program, or relationship, prior to initiation,
- (iii) Require Audit Committee and Board approval for any proposed new activities, products, or services, with such discussion, presentation of the risks and controls, and approval documented in the minutes, and
- (iv) Require an internal audit and compliance audit of the new activity, product, or service and the associated controls within three months of initiation.

(c) Creation of Business Plan. No later than thirty (30) days following the Savings Association's receipt of the Regional Director's written notice of non-objection with respect to the proposed written Business Plan and Budget submitted to the OTS hereunder ("Business Plan"), the Savings Association shall implement and adhere to the Business Plan that was the subject of the Regional Director's non-objection notice (the "Approved Business Plan"). By no later than Monday, September 15, 2008, the Savings Association, following review and authorization by its Board, shall submit to the Regional Director its proposed Business Plan for review, comment, and non-objection. To be acceptable/non-objectionable to the Regional Director, the Business Plan must provide for business operations of the Savings Association and its Subsidiaries that are safe and sound, consistent with economical home financing and the purposes of savings associations, and in compliance with all applicable laws, rules and regulations. Additionally, to be acceptable/non-objectionable to the Regional Director, the Business Plan must address the Savings Association's operations during the final six months of 2008, as well as calendar years 2009 and 2010, and such Business Plan must be prepared in accordance with the guidance set forth in Section 625 of OTS's Applications Processing Handbook, and shall:

- (i) Include an analysis of the Savings Association's current financial condition and an assessment of its strengths and weaknesses.
- (ii) Include the Board's general business philosophy, strategic goals, and objectives for the business plan period, and the means by which the Savings Association will achieve those strategic goals and objectives.
- (iii) Incorporate the restrictions on activities set forth in Section 12(a) of this Order.

(d) Budget. The Savings Association shall prepare a budget corresponding to the Business Plan's goals and objectives, and shall devise and implement a system to monitor its performance in comparison to the budget that includes quarterly projected (i) Balance Sheets, (ii) Income Statements, and (iii) Regulatory Capital Schedules for the third and fourth quarters of 2008 and each quarter of 2009 and 2010.

(e) Board Participation and Approval/Revisions. The Savings Association's Board must participate in the formulation of the Business Plan and Budget and must approve it by documented formal action at a duly called and held meeting.

(f) Violations of Business Plan. The Savings Association will be deemed to be in violation of this Order if, without prior written approval from the OTS, it deviates materially from its Approved Business Plan.

13. Liquidity Management.

By no later than Thursday, July 31, 2008, the Savings Association, pursuant to Board authorization, shall implement and adhere to a written liquidity management and contingency plan ("Liquidity Management Plan") that: (i) is to provide for the safe and sound management of liquidity in accordance with OTS Thrift Bulletin 77, other OTS guidance (*e.g.*, OTS Issuance 03-23, transmitting the Interagency Advisory on the Use of the Federal Reserve's Primary Credit Program In Effective Liquidity Management), and industry best practices, (ii) is to include contingency plans for the Savings Association to implement in the event of unanticipated withdrawals of deposits, and (iii) provides for ongoing monitoring by the Savings Association's management and oversight by the Savings Association's Board. Among other things, the Liquidity Management Plan shall: (i) address the liquidity needs of the Savings Association with reference to the Savings Association's liquid assets (relative to total assets) and its borrowing capacity (including its capacity to borrow from a Federal Home Loan Bank and/or a Federal Reserve Bank in view of the level of the Savings Association's portfolio of unpledged mortgage loan assets that are available as collateral to support future borrowings). By no later than Friday, August 15, 2008, the Savings Association shall submit to the OTS a copy of the Liquidity Management Plan.

14. Homeowners Protection Act Disclosures Concerning Private Mortgage Insurance.

By no later than Friday, August 15, 2008, the Savings Association shall – (i) identify each borrower who it failed to provide the Private Mortgage Disclosures required by the Homeowners Protection Act, 12 U.S.C. § 4903(a)(1)(A) and (B), and (ii) provide such written PMI-related disclosures to such identified borrowers.

15. Appraisals.

(a) Retention of Expert Appraiser. By no later than Friday, August 29, 2008, and subject to the requirements of Section 22 of the Order, the Savings Association shall engage a qualified real estate appraisal expert ("Appraisal Expert") acceptable to OTS to do the things required by this Section 15 of the Order, including, having such Appraisal Expert:

- (i) By no later than Friday, October 31, 2008, review and report on appraisals that were criticized by OTS in the most recent ROE for compliance with OTS's Appraisal Regulations, 12 C.F.R. Part 564 and the Uniform Standards of Professional Appraisal Practice ("USPAP").
- (ii) Participate in the Forensic Review required by Section 5 of this Order,
- (iii) On an ongoing basis, perform a written review of every appraisal report supporting an extension of credit occurring after the Effective Date that is designed to determine whether the appraisal report:
 - (A) Conforms to USPAP and the requirements of 12 CFR Part 564, with particular emphasis on reasonableness of comparable sales data and seller sale concessions, and
 - (B) Arrives at a reasonable and reliable market value estimate.

Documentation of the above-required review shall be made and retained as part of the loan file.

(b) Actions to Address Appraisal Defects. The engagement terms shall provide that, to the extent that material appraisal defects are identified in connection with the reviews required by Section 15(a), the Appraisal Expert will, as appropriate:

- (i) Report the matter to the Compliance Officer in accordance with the procedures for identifying suspicious transactions set forth in Section 6(a)(i) of this Order,
- (ii) Make a written recommendation about whether the appraiser responsible for the defective appraisal should be reported to the appropriate State licensing or certification body for disciplinary action, and/or
- (iii) Make a written recommendation about whether the appraiser responsible for the defective appraisal should be removed from Savings Association's approved appraiser list.

(c) Recommendations for Improvements in Appraisal Policies. By no later than Friday, October 31, 2008, the engaged Appraisal Expert must review and provide to the Savings Association's Board and management written recommendations for improvements in the Savings Association's appraisal policies and practices, which are required by 12 C.F.R. § 564.8.

(d) Implementation of Appraiser's Recommendations.

(i) The Savings Association shall take appropriate action to make a referral to the appropriate State licensing or certification body and/or remove an appraiser from the approved appraiser list no later than thirty (30) days following receipt of the Appraisal Expert's recommendation pursuant to Section 15(c) above. The Savings Association's determination about whether to file a SAR shall comport with the process set forth in Section 6(a)(ii) of this Order.

(ii) The Board shall consider and adopt, and the Savings Association shall implement, the Appraisal Expert's written recommendations (required by Section 15(c) above) for improvements in the Savings Association's appraisal policies and practices no later than thirty (30) days following receipt thereof.

16. Records Retention.

(a) The Savings Association and its Subsidiaries shall preserve written, electronic, and other forms of records related to its FLO Program and its Third Party Originator ("TPO") lending program including, but not limited to, loan documents and files, emails, personnel and administrative documents, and management reports. Each such record must be maintained and easily accessible for a minimum of six (6) years from the later of: (i) its date of creation or (ii) the Effective Date of this Order.

(b) The Savings Association and Intervale must preserve all written, electronic, and other forms of records related to Intervale's activities including, but not limited to, loan documents and files, emails, personnel and administrative documents, and management reports. These records must be maintained and easily accessible for a minimum of six (6) years from the later of: (i) its date of creation or (ii) the Effective Date of this Order. The records maintenance requirement established in the preceding sentence may be satisfied by having such records in the possession of a qualified third party file storage company with whom the Bank or Intervale has a contractual relationship obligating the company to provide records upon request.

17. Required Annual Audit of Financial Statements.

(a) Annual Financial Statements Required. The Savings Association shall prepare annual fiscal-year-end financial statements that conform to generally accepted accounting principles ("GAAP").

(b) Annual Audit Required. The Savings Association is required to have its annual fiscal-year-end financial statements audited by a qualified independent public accounting firm. See 12

C.F.R. § 562.4. To be qualified, the independent public accounting firm must: (i) meet the qualification requirements of 12 C.F.R. § 562.4 and (ii) have background and experience in conducting audits of FDIC-insured banking institutions.

(c) Except as otherwise permitted in writing by the Regional Director and notwithstanding its size, the Savings Association, in connection with its obligations under this Section 17, shall comply with the following provisions of the FDIC Rules on Annual Independent Audits at 12 C.F.R. §§ 363.2, 363.3, 363.4 (except for subsection (b)), and 363.5.

(d) Engagement Letter Review by OTS. Following review and approval by the Audit Committee, the Savings Association shall provide the proposed Audit Engagement Letter to OTS for its non-objection.

(e) Audit Committee Review. By no later than the 90th day following the close of its fiscal year, the Savings Association's annual fiscal-year-end financial statements, conforming to GAAP, shall be presented to the Audit Committee, together with communications from the Auditor pursuant to: (i) the Statement on Auditing Standards ("SAS") Number 112, entitled "Communicating Internal Control Related Matters Identified in an Audit" ("SAS 112 Communication") or (ii) SAS Number 114, entitled "The Auditor's Communication with Those Charged With Governance" ("SAS 114 Communication"). The Audit Committee shall promptly review, evaluate, and discuss the financial statements, the SAS 112 Communication and the SAS 114 Communication. Such review, evaluation and discussion must be noted in, and copies of the documents reviewed attached to, the minutes of the pertinent Committee meeting.

(f) Submission of Audited Financial Statements. With respect to its financial statements for fiscal year 2008 and all subsequent years, the Savings Association shall submit to the OTS, by no later than the 90th day following the close of its fiscal year: two complete copies of the signed, independent auditor's report on its annual financial statements together with copies of all related letters and reports from the independent auditor (including, but not limited to, SAS 112 and SAS 114 Communications).

18. Prior Notice to OTS Regarding Transactions with Affiliates.

(a) Complete Listing of Affiliates Required. By no later than Tuesday, July 15, 2008, the Savings Association shall submit to OTS a complete and comprehensive written listing of its affiliates (as such term is defined in 12 C.F.R. §§ 563.41 and 223.2).

(b) Advance Notice Requirement and Content. Pursuant to 12 C.F.R. § 563.41(e)(3), the Savings Association must provide thirty (30) days prior written notice to OTS of any proposed

transaction with an affiliate (inclusive of any renewal, modification or extension of any existing transaction). Such notice shall include, at a minimum:

- (i) A summary description of the proposed transaction,
- (ii) Copies of all pertinent transaction documents,
- (iii) A reasoned legal opinion, signed by counsel experienced in the application for the transactions with affiliates (“TWA”) rules, forming a conclusion about whether the proposed transaction comports with the TWA rules, and
- (iv) A letter signed by the Audit Committee Chairman indicating that the Audit Committee has reviewed the proposed transaction and finds that it: (A) comports with the rules governing transactions with affiliates and (B) is in the Savings Association’s best interests.

19. Restriction on Amendments to Approved Plans, Policies and Procedures.

While this Order remains outstanding and effective, any plans, policies, and procedures that have been submitted to OTS for its approval or non-objection, and have been approved or deemed to be not objectionable by OTS, shall not be amended or rescinded without the prior written approval of the Regional Director.

20. Applicability of Order Requirements to Subsidiaries.

The Savings Association (including its Board and officers) shall take all necessary or appropriate actions so that each of its Subsidiaries will comply fully with the applicable requirements of this Order. In furtherance of the foregoing, the Savings Association shall vote its shares of Subsidiary stock and otherwise use its controlling influence to require each Subsidiary’s compliance. The Savings Association shall promptly provide the Regional Director with written notice in the event that it becomes aware that the acts or omissions of any Subsidiary would contravene applicable restrictions, limitations or requirements of this Order.

21. Board/Management Changes, Employment and Golden Parachute Matters.

(a) Notice of Change of Director or Senior Executive Officer. The Savings Association is and shall be subject to the requirements and limitations set forth in Subpart H of Part 563 of the OTS’s regulations (12 C.F.R. §§ 563.550 - .590). Without limitation on such requirements and limitations, this means, among other things, that, except as otherwise permitted by 12 C.F.R. § 563.590, (i) the Savings Association must notify the OTS at least 30 days before adding or replacing any member of its Board, employing any person as a senior executive officer, or changing the responsibilities of any senior executive officer so that the person would assume a different

senior executive officer position, and (ii) the proposed director or senior executive officer may not begin service except as permitted by 12 C.F.R. § 563.585 and 12 U.S.C. § 1831i.

(b) Notice of Contractual Arrangements Involving Compensation. The Savings Association shall not enter into, renew, extend or revise any contractual arrangement related to compensation or benefits with any director or senior executive officer of the Savings Association unless the Savings Association first (i) provides a minimum of 30 days advance notice of the proposed transaction and (ii) receives a written notice of non-objection from the OTS. See OTS Examination Handbook § 310 (p. 310.17) and OTS Regulatory Bulletin 27b.

(c) Golden Parachute Restrictions. The Savings Association is and shall be subject to the restrictions set forth in 12 C.F.R. Part 359. Such restrictions concern the making of agreements (including employment agreements) with severance provisions, "golden parachute payments" and "prohibited indemnification payments". Without limitation on the generality of the foregoing, this means, inter alia, that the Savings Association shall not make or agree to make any "golden parachute payment", as that term is defined 12 U.S.C. § 1828(k) and in 12 C.F.R. Part 359, except as may be permitted pursuant to the aforesaid statutory provision and regulations. See 12 C.F.R. §§ 359.2 and 359.4.

22. Contracts Outside of the Ordinary Course of Business.

The Savings Association and its Subsidiaries shall not enter into any third-party contracts outside of the normal course of business without the prior written non-objection of the OTS. To seek such non-objection the Savings Association shall provide 30 days advance written notice to the OTS of any such proposed contract. At a minimum, such notice shall set forth the Savings Association's reasons for seeking the contract and shall transmit a copy of the proposed contract. See OTS Examination Handbook § 310 and OTS Thrift Bulletin 82a.

23. Brokered Deposit Restriction.

Effective immediately and even if the Savings Association's capital ratios meet or exceed those applicable for "well capitalized" status, the Savings Association shall not accept brokered deposits except in compliance with Section 337.6(b)(2) of the regulations of the Federal Deposit Insurance Corporation ("FDIC"), 12 C.F.R. § 337.6(b)(2). The Savings Association shall provide (i) written notice to the OTS if the Savings Association requests the FDIC for a waiver and (ii) the OTS with a copy of the FDIC's document indicating its disposition of any request for such a waiver.

24. Board Oversight of Compliance with Order.

(a) The Audit Committee shall regularly monitor and shall provide timely reports and guidance to the Board and management for the purpose of facilitating the Savings Association's compliance with the provisions of this Order.

(b) Beginning in July 2008, and on a no-less-than monthly basis thereafter, the Savings Association's management shall provide to the Audit Committee such information and reports to allow said Committee and the Board to monitor the Savings Association's compliance with the requirements of this Order that is: (i) requested by the Audit Committee or Board or (ii) otherwise necessary to facilitate such monitoring.

(c) Within thirty (30) days after the end of each calendar quarter, the Audit Committee shall submit a written quarterly progress report to the Board that:

- (i) Details the actions taken by the Savings Association to comply with each provision of this Order, also there must be descriptions of the results of such actions, and
- (ii) Identifies all violations of this Order, and further describes all remedial actions that have been effected and/or that are contemplated with respect to such violations.

(d) Within forty-five (45) days after the end of each calendar quarter, the Board shall submit to the OTS: (i) a copy of the Audit Committee's quarterly progress report required by the foregoing subparagraph, with any additional comments made by the Board, to the OTS, and (ii) a written certification that each director has reviewed the report.

(e) Nothing contained herein shall diminish the responsibility of the entire Board to ensure the Savings Association's compliance with the provisions of this Order.

25. Definitions.

(a) General. All technical words or terms used in this Order for which meanings are not specified or otherwise provided by the provisions of this Order shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, the Home Owners' Loan Act ("HOLA"), the Federal Deposit Insurance Act ("FDIA"), OTS Memoranda or other published OTS guidance. Any such technical words or terms used in this Order and undefined in said Code of Federal Regulations, the HOLA, the FDIA, or OTS Memoranda/guidance shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

(b) For purposes of this Order the terms referenced below have the meanings as set out below:

- (i) Acceptable to the Regional Director. For purposes of this Order, nothing shall be deemed “acceptable to the Regional Director” unless the Regional Director (or his designee) has stated in writing that it is acceptable or has provided a written notice of non-objection in response to a written request by the Savings Association.
- (ii) Compliance and Consumer Protection Laws and Regulations. “Compliance and Consumer Protection Laws and Regulations” means those laws and regulations laws and regulations that are set forth in Section 1100 of the OTS Examination Handbook.
- (iii) Home Mortgage Loan. “Home Mortgage Loan” means a mortgage loan secured by a borrower’s primary residence and that is not a “Business purpose loan” defined at 24 C.F.R. § 3500.5(b).
- (iv) Independent of Management. “Independent of Management” means that the person is an Outside Director that: (A) is not, and within the preceding three (3) years has not served as, a consultant, advisor, or legal counsel to the Savings Association or its affiliates, (B) is not, either by blood or marriage, related to any existing or former Savings Association officer or their attorneys or consultants, (C) does not have a business or professional relationship with any existing or former Savings Association officer or their attorneys or consultants, (D) is not, and within the preceding three (3) years has not served as, an officer, employee, advisor, consultant or legal counsel of any: (I) Principal Shareholder, (II) Related Interest of any Principal Shareholder or (III) Related Interest of member of the Principal Shareholder’s immediate family, (E) to the extent not inconsistent with the foregoing, meets the criteria set forth at 12 C.F.R. Part 363 and Appendix A thereof and (F) is not excluded from such status by the Regional Director for good cause, based on OTS’s review of a Notice of Change of Director filed pursuant to Subpart H of Part 563 (12 C.F.R. §§ 563.550 - .590). However, this definition shall not be interpreted to exclude a Current Outside Director solely because of the person’s service on the Savings Association’s Board.

- (v) Outside Director. “Outside Director” means that the director:
 - (A) Is not, and within the preceding three years has not been, an officer or employee of: (A) the Savings Association or (B) any Subsidiary or affiliate of the Savings Association, and
 - (B) Is not related by blood or marriage to any officer or employee of: (A) the Savings Association or (B) any Subsidiary or affiliate of the Savings Association.
- (vi) Nonspeculative Construction Loan. “Nonspeculative construction loan” means: A real-estate-secured “construction loan” (within the meaning of Appendix A to 12 C.F.R. § 560.101) relative to 1-to-4 family residential property where: (A) the borrower/builder has a binding written contract for the post-construction residential property to be acquired by an owner-occupant who has a binding written loan commitment for permanent financing, and/or (B) the Savings Association has otherwise secured “specific plans for permanent financing” (within the meaning of Section 213 of the OTS’ Examination Handbook).
- (vii) Predatory Lending. “Predatory Lending” means:
 - (A) Making loans based predominantly on the foreclosure or liquidation value of a borrower’s collateral rather than on the borrower’s ability to repay the mortgage according to its terms,
 - (B) Inducing a borrower to refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced (“loan flipping”), or
 - (C) Engaging in fraud or deception to conceal the true nature of the loan obligation, or ancillary products, from an unsuspecting or unsophisticated borrower, including, but not limited to, misstatements, misrepresentations or improper disclosure of prepayment penalties.
- (viii) Principal Shareholder. “Principal Shareholder” shall have the meaning set forth in 12 C.F.R. § 215.2(m).
- (ix) Related Interest. “Related Interest” shall have the meaning set forth in 12 C.F.R. § 215.2(n).
- (x) Regional Director. “Regional Director” means the OTS Regional Director for the Northeast Region, and includes any OTS official designated by him to act on his behalf with respect to matters relating to this Order.
- (xi) Senior Executive Officer. “Senior Executive Officer” shall have the meaning set forth in 12 C.F.R. § 563.555.
- (xii) Subsidiary. “Subsidiary” has the meaning set forth in 12 C.F.R. § 559.2.

26. **Effective Date; Incorporation of Stipulation.**

This Order is effective on the Effective Date as shown on the first page. The Stipulation is made a part hereof and is incorporated herein by this reference.

27. **Duration.**

This Order shall remain in effect until terminated, modified or suspended, by written notice of such action by OTS, acting by and through its authorized representatives.

28. **Time Calculations.**

(a) Calculation of time limitations for compliance with the terms of this Order run from the Effective Date and shall be calendar based, unless otherwise noted, and

(b) The Regional Director may extend any of the deadlines set forth in the provisions of this Order upon written request by the Savings Association that includes reasons in support for any such extension. Any OTS extension shall be made in writing.

29. **Submissions and Notices.**

(a) All submissions, including progress reports, to the OTS that are required by or contemplated by this Order shall be submitted within the specified timeframes,

(b) Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Order shall be in writing and sent by first class U.S mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

To the OTS:

<u>Original to:</u> Michael E. Finn Regional Director Office of Thrift Supervision Harborside Financial Center Plaza Five Suite 1600 Jersey City, NJ 07311	<u>Copy to:</u> John F. Burke Assistant Director Office of Thrift Supervision 35 Braintree Hill Office Park, Suite 201 Braintree, MA 02184
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To the institutions subject to this Order:

<u>To the Savings Association:</u> Domestic Bank Attention: Board of Directors c/o Daniel Rinaldi, Director 815 Reservoir Avenue Cranston, RI 02910	<u>To Intervale:</u> Intervale Mortgage Corporation Attention: Board of Directors c/o Nathaniel Baker, Chairman 815 Reservoir Avenue Cranston, RI 02910
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30. **No Violations Authorized.**

Nothing in this Order or the Stipulation shall be construed as allowing the Savings Association or any Subsidiary thereof (including Intervale) or their Boards, officers or employees to violate any law, rule, or regulation.

IT IS SO ORDERED.

OFFICE OF THRIFT SUPERVISION

By: _____/s/_____
Michael E. Finn
Regional Director, Northeast Region
Date: See Effective Date on page 1

In the Matter of)	
)	
DOMESTIC BANK)	Order No.: NE-08-07
Cranston, Rhode Island)	NE-08-08
(OTS No. 13964))	
)	Effective Date: June 30, 2008
and its Subsidiaries, including)	
)	
INTERVALE MORTGAGE CORPORATION)	
Cranston, Rhode Island)	
)	
)	

WHEREAS, the Office of Thrift Supervision (“OTS”), acting by and through its Regional Director for the Northeast Region (“Regional Director”), and based upon information derived from the exercise of its regulatory and supervisory responsibilities, has informed Domestic Bank, Cranston, Rhode Island, OTS Docket No. 13964 (“Savings Association”) and Intervale Mortgage Corporation (collectively with the Savings Association, “the Regulated Entities”) that OTS is of the opinion that grounds exist to initiate administrative proceedings against the Regulated Entities pursuant to 12 U.S.C. §§ 1818(b) and 1818(i)(2);

WHEREAS, in addition to becoming subject to the financial obligations required by the accompanying cease-and-desist order, the Savings Association has made a commitment to pay,

during the third quarter of 2008, \$1.0 million to support financial literacy and credit counseling; and

WHEREAS, the Regulated Entities desire to cooperate with OTS to avoid the time and expense of such administrative proceedings by entering into this Stipulation and Consent to the Issuance of an Order to Cease and Desist and an Order of Assessment of a Civil Money Penalty (“Stipulation”) and, without admitting or denying that such grounds exist, but only admitting the statements and conclusions in Paragraph 1 below concerning Jurisdiction, hereby stipulate and agree to the following terms:

1. Jurisdiction.

(a) Savings Association is a “savings association” within the meaning of 12 U.S.C. § 1813(b) and 12 U.S.C. § 1462(4). Accordingly, Savings Association is “an insured depository institution” as that term is defined in 12 U.S.C. § 1813(c);

(b) Intervale Mortgage Corporation, a Rhode Island corporation, is an operating subsidiary of Savings Association within the meaning of 12 C.F.R. § 559.2 and is a subsidiary of Savings Association for purposes of 12 U.S.C. §§ 1464(d)(7)(C), 1813(w)(4) and 1818(b)(9); and

(c) Pursuant to 12 U.S.C. § 1813(q), the Director of OTS is the “appropriate Federal banking agency” with jurisdiction to maintain an administrative enforcement proceeding against a savings association and any subsidiary thereof. Therefore, the Regulated Entities are subject to the authority of OTS to initiate and maintain administrative proceedings against them pursuant to 12 U.S.C. §§ 1818(b) and 1818(i)(2).

2. OTS Findings of Fact.

(a) Based on information obtained by the OTS through the exercise of its regulatory

responsibilities, including recent examinations, OTS finds that the Savings Association (including its subsidiaries) violated laws and regulations and engaged in unsafe and unsound banking practices, including those summarized in paragraphs (b), (c), and (d) below. The Savings Association (including its subsidiaries) also engaged in residential mortgage lending activities that were conducted in a manner that was unsafe and unsound, deceptive, inconsistent with economical home financing, not in accord with industry best practices and that failed to conform to the guidance in the Federal Banking Agencies' 2001 Expanded Guidance for Subprime Lending Programs and the related 2007 Statement on Subprime Lending with respect to avoidance of abusive lending practices.

(b) There were numerous weaknesses in the Savings Association's internal controls, fraud-detection processes, compliance management, record-keeping, management, asset quality review processes, and lending activities (including credit underwriting) that were contrary to the Interagency Guidelines Establishing Standards for Safety and Soundness (12 C.F.R. Part 570, Appendix A).

(c) In connection with its Field Loan Originators program, which was discontinued in March 2007 at the direction of OTS, the Savings Association engaged or participated in the following unsafe or unsound practices and violations of laws and/or regulations:

- i. The Savings Association, contrary to 12 C.F.R. § 563.161(a), engaged in unsafe or unsound practices by failing to establish adequate controls for, and by failing to prudently monitor and oversee activities with respect to, its Field Loan Originators program;
- ii. The Savings Association engaged or participated in violations of section 8 of the Real Estate Settlement Procedures Act, 12 U.S.C. 2607, and the HUD regulation thereunder at 24 C.F.R. § 3500.14, in connection with payments to persons that OTS has determined to be sham employees;
- iii. The Savings Association engaged or participated in violations of section 5 of the Federal Trade Commission Act, 15 U.S.C. § 45(a)(1), by, inter alia,

establishing and operating a program that allowed sham employees to hold themselves out as employees of a federally chartered savings bank; and

- iv. While the Savings Association was subject to OTS cease-and-desist order No. NE-05-01, the Savings Association violated section 2 of said cease-and-desist order, which restricted various activities and product-delivery mechanisms.

(d) The Savings Association (including its Subsidiaries) also engaged or participated in violations of the following laws and regulations with respect to other aspects of its operations:

- i. 12 U.S.C. § 4903(a)(1)(A) and (B) (Homeowners Protection Act – Requiring Private Mortgage Insurance disclosures),
- ii. 15 U.S.C. § 45(a)(1) (Federal Trade Commission Act – Unfair or Deceptive Practices are Unlawful),
- iii. 15 U.S.C. § 1681g(g) (Fair Credit Reporting Act – Disclosure of credit scores),
- iv. 12 C.F.R. §§ 226.4 & 22 (Truth in lending/Regulation Z -- Requiring disclosure of finance charges and accurate computation of annual percentage rates),
- v. 12 C.F.R. § 226.19(b) (Truth in lending/Regulation Z – Requiring Disclosures on Variable Rate Transactions/Adjustable Rate Mortgages),
- vi. 12 C.F.R. § 226.24(a) (Truth in lending/Regulation Z – Permitting advertising only of actually available terms),
- vii. 12 C.F.R. § 226.24(c) (Truth in lending/Regulation Z – Advertising of terms that require additional disclosures),
- viii. 12 C.F.R. § 560.100 & 101 (Requiring savings associations and their subsidiaries to adopt and comply with prudent written real estate lending standards),
- ix. 12 C.F.R. § 563.161(a) (Requiring management and financial policies that are safe and consistent with economical home financing and the purposes of savings associations),
- x. 12 C.F.R. § 560.170 (Requiring savings associations and their subsidiaries to establish and maintain certain records relating to lending transactions),
- xi. 12 C.F.R. § 563.27 (Requiring that advertising of services and contracts must be accurate),
- xii. 12 C.F.R. § 563.170(c) (Requiring, *inter alia*, the establishment and maintenance of accurate books and records),

- xiii. 12 C.F.R. § 563.180(b) (Prohibiting false, misleading statements and omissions of material facts),
- xiv. 12 C.F.R. § 563.180(d) and 31 C.F.R. § 103.18 (Suspicious Activity Reports),
- xv. 12 C.F.R. Part 564 (Appraisals),
- xvi. 12 C.F.R. § 572.3(a) (Requirement to purchase flood insurance where available), and
- xvii. 12 C.F.R. § 572.5 (Escrow requirements for flood insurance).

3. Consent.

Savings Association and Intervale Mortgage Corporation each consents to the issuance by OTS of the accompanying two orders: Order to Cease and Desist and Order of Assessment of a Civil Money Penalty (collectively the "Orders"). The Regulated Entities further agree to comply with the terms of the Orders upon the Effective Dates thereof and stipulate that the Orders comply with all requirements of law.

4. Finality.

The Orders are issued by OTS under 12 U.S.C. §§ 1818(b) and 1818(i)(2), and upon the Effective Dates thereof, each is and shall be a final order, effective and fully enforceable by OTS under the provisions of 12 U.S.C. § 1818(i). Additionally, the Order to Cease and Desist, upon its effective date, shall supersede the restrictions imposed on the Savings Association by the OTS's letter to the Savings Association dated March 20, 2007.

5. Waivers.

The Regulated Entities each waive the following:

- (a) The right to be served with a written notice of OTS's charges against them as provided by 12 U.S.C. §§ 1818(b) and 1818(i)(2) as well as 12 C.F.R. Part 509;
- (b) The right to an administrative hearing of OTS's charges as provided by 12 U.S.C. §§ 1818(b) and 1818(i)(2) as well as 12 C.F.R. Part 509;

(c) The right to seek judicial review of the Orders, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Orders; and

(d) Any and all claims against OTS, including its employees and agents, and any other governmental entity for the award of fees, costs, or expenses related to this OTS enforcement matter and/or the Orders, whether arising under common law, federal statutes or otherwise.

6. OTS Authority Not Affected.

Nothing in this Stipulation or the accompanying Orders shall inhibit, estop, bar or otherwise prevent OTS from taking any other action affecting either or both of the Regulated Entities if at any time OTS deems it appropriate to do so to fulfill the responsibilities placed upon OTS by law.

7. Other Governmental and Non-Governmental Actions Not Affected.

Savings Association and Intervale Mortgage Corp. each acknowledges and agrees that its consent to the issuance of the Orders is solely for the purpose of resolving the matters addressed herein with respect to the Regulated Entities only, consistent with Paragraph 6 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of Savings Association or Intervale Mortgage Corp. that arise pursuant to this action or otherwise, and that may be or have been brought by: (i) any governmental entity other than OTS, or (ii) any private parties or any other persons or entities that have not signed this Stipulation.

8. Miscellaneous.

(a) The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Orders.

(b) If any provision of this Stipulation and/or the Orders is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions thereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

(c) All references to OTS in this Stipulation and the Orders shall also mean any of the OTS's predecessors, successors, and assigns.

(d) The section and paragraph headings in this Stipulation and the Orders are for convenience only and shall not affect the interpretation of this Stipulation or the Orders.

(e) The terms of this Stipulation and of the Orders represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

(f) The Stipulation and Orders shall remain in effect until terminated, modified, or suspended in writing by OTS, acting through its Regional Director or other authorized representative.

9. Signature of Directors/Board Resolution.

(a) Each Director of the Savings Association signing this Stipulation attests that he or she voted in favor of a Board Resolution authorizing the consent of Savings Association to the issuance of the Orders and the execution of the Stipulation.

(b) Each Director of Intervale Mortgage Corp. signing this Stipulation attests that he or she voted in favor of a Board Resolution authorizing the consent of Intervale Mortgage Corp. to the issuance of the Orders and the execution of the Stipulation.

(c) This Stipulation may be executed in counterparts by the directors after approval of execution of the Stipulation at a duly called board meeting. Concurrent with their delivery of

WHEREFORE, each of the Regulated Entities, by their respective directors and duly authorized officers, executes this Stipulation.

DOMESTIC BANK
Cranston, Rhode Island

INTERVALE MORTGAGE CORP.
Cranston, Rhode Island

By: /s/
Nathaniel B. Baker
Chairman of the Board

By: _____ /s_____
Nathaniel B. Baker
Chairman of the Board

Date: /s/ June 26, 2008

Date: /s/ June 26 , 2008

Accepted by:

OFFICE OF THRIFT SUPERVISION

By: _____/s/_____
Michael E. Finn
Regional Director, Northeast Region

Date: See the Effective Date on page 1

The signatures of the other directors of Domestic Bank and of Intervale Mortgage Corp. are set out below. Each of the undersigned hereby signs the foregoing Stipulation.

<p>Other Directors of Domestic Bank:</p> <p>_____ Leonard S. Guglielmino, Director</p> <p>_____ James F. Kiley, Director</p> <p>_____ Charles F. McCarthy, Director</p> <p>_____ Daniel Rinaldi, Director</p> <p>_____ Stephen D. Stoller, Director</p>	<p>Other Directors of Intervale Mortgage Corp.</p> <p>_____ H. Jeffrey Baker, Director</p> <p>_____ Craig Baker, Director</p>
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